



U.S. SENATE REPUBLICAN POLICY COMMITTEE

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Rhetoric of 4% Increase Does Not Match Reality

**Obama Budget Spends Too Much
(Except for its Defense Spending Cuts in a Time of War)**

Executive Summary

- On February 26, 2009 President Obama released his first federal budget request, claiming a 4% increase *in the base budget*, which the media is falsely reporting as a 4% increase in defense spending.
- Contrary to President Obama's claim that this budget request represents a "return to honest budgeting," any truthful discussion of the defense budget request should include the costs of ongoing operations in Iraq and Afghanistan. The table below clearly shows the total defense budget is in decline starting this year:

Fiscal Year	2008	2009	2010	2011
Base (in billions)	478.3	513.3	533.7	541.8
Supp (in billions)	187.7	141.4	130.0	50.0
Total (in billions)	666.0	654.7	663.7	591.8

(The 2011 supplemental figure is an Obama Administration placeholder.)

- Second, the budget request assumes that the surge in Iraq continues for the next ten years, and then counts savings when the operations in Iraq decrease. It was well known to this Administration that the surge could not last that long, since the agreement signed with Iraq *last year* provides that all U.S. troops are to be out of Iraq by December 31, 2011.
- The savings to be gained from a drawdown in Iraq, which are used to dramatically increase spending elsewhere throughout the federal budget, only come about from demonstrably false assumptions concerning Iraq policy.
- As the holder of the power of the purse, the Congress can correct this travesty of cutting defense budgets in a time of war.

Introduction

On February 26, 2009 President Barack Obama released his first federal budget request, and the media is dutifully reporting that the budget request contains a 4% increase in defense spending. A closer examination of the president's own submitted numbers reveals a rhetoric-reality mismatch. First, the president's own numbers mark a decline in defense spending starting this year and continuing through future years when adjusted for inflation. Second, the budget request assumes that the surge in Iraq would take place for the next ten years, and then assumes savings when the pace of operations in Iraq is decreased. These savings, which only come about from demonstrably false assumptions concerning Iraq policy, are then used to support increased spending elsewhere throughout the federal government. As the holder of the power of the purse, the Congress can correct this travesty of cutting defense budgets in a time of war.

The Defense Budget is in Absolute—Let Alone Relative—Decline

Any analysis of the defense budget request is limited because the entire text submitted for the Department of Defense is only three pages, with a promise of a detailed submission in late April. The President requests \$533.7 billion for the Department of Defense base budget in fiscal year 2010, which is approximately \$20.4 billion more than the 2009-enacted level of \$513.3 billion.¹ The President rightfully asserts that this is a 4% increase *in the base budget*, and the media is falsely reporting that as a 4% increase in defense spending.² The budget further requests supplemental funding of \$75.5 billion for the remainder of fiscal year 2009 and \$130.0 billion for 2010 for the costs of military operations in Iraq and Afghanistan.³ It then includes placeholder estimates for such war costs of \$50.0 billion per year for 2011 through 2019.

It is self-evident that the much more operative and relevant defense budget number is the sum of the base budget plus war supplemental appropriations. Any honest discussion of the defense budget must include the costs of ongoing contingency operations. This total number for 2008 and the immediate years thereafter is outlined in the following chart:

Fiscal Year	2008 ⁴	2009	2010	2011
Base (in billions) ⁵	478.3	513.3	533.7	541.8
Supp (in billions) ⁶	187.7	141.4 (65.9 & 75.5)	130.0	50.0
Total (in billions) ⁷	666.0	654.7	663.7	591.8

¹ Budget Request of President Obama, p. 54.

² E.g., Eric Gershom, "Obama's 2010 Budget Increases Defense Spending 4%," *The Hartford Courant* (Feb. 27, 2009); William Matthews, "2010 Budget: Men vs. Machines," *Defense News*, p. 1 (March 2, 2009) (stating in the opening sentence of the article that "[t]he Obama Administration's \$533.7 billion defense budget gives the U.S. military 4% more to spend").

³ Budget Request at p. 55.

⁴ Top-line figures for fiscal year 2008 come from CRS Report RL 33110.

⁵ Budget Request at p. 130 (Table S-7), Funding Levels for Appropriated ("discretionary") Programs by Agency: Defense excluding overseas contingency operations.

⁶ The fiscal year 2008 supplemental provided a \$65.9 billion "bridge fund" to the Defense Department for the opening months of fiscal year 2009. Fiscal Year 2008 Supplemental Appropriations Act, Tit. IX, Chp. 2, Pub. L. No. 110-252, 122 Stat. 2323, 2405 (June 30, 2008).

⁷ Budget Request at p. 120 (Table S-4), Proposed Budget by Category: Department of Defense (051) including funding for overseas contingency operations.

In this respect, according to the President's own numbers, the total defense budget for each of the next three fiscal years is less than the total amount in fiscal year 2008. This reality contradicts the rhetoric of a 4% increase in defense spending. The total defense budget for fiscal year 2008 of \$666.0 billion shrinks \$11.3 billion down to a fiscal year 2009 amount requested of \$654.7 billion. (This does not include the \$7.4 billion provided in the American Recovery and Reinvestment Act). The 2010 budget request of \$663.7 billion is \$2.3 billion less than the fiscal year 2008 amount. The defense budget is actually decreasing, and that does not even account for the effect inflation will have on the Department's actual buying power.

Paying for Increased Federal Spending From an Iraq Savings Flim-Flam

President Obama's budget request declares substantial savings from decreased operations in Iraq, claiming that "the combined cost of Iraq and Afghanistan operations would decrease by \$50.3 billion in 2009 and \$64.6 billion in 2010, compared with the 2008 level of \$187.7 billion (adjusted for inflation)."⁸ The budget request then projects further savings from these decreased operations over the next ten years. Finally, the budget request then uses these "savings" to pay for increased spending elsewhere throughout the federal budget, but the problem is that the savings come about from demonstrably false assumptions.

First, the budget request accepts the 2008 cost of contingency operations, namely the current pace of operations in Iraq, and projects those costs out over the next ten years as if they were to occur at the current pace.⁹ Next, the budget request then creates for itself savings when it decreases the future pace of contingency operations from the 2008 operational tempo.¹⁰ More succinctly, the budget request assumes that the surge in Iraq would take place for the next ten years, and then assumes savings when the pace of operations in Iraq is decreased.¹¹

This is a demonstrably false assumption of what the U.S. presence in Iraq might look like in 2012, for example, based upon the state of affairs in 2008. This is the case because in 2008 the United States signed a Status of Forces Agreement with Iraq that required all U.S. forces to be withdrawn from Iraq no later than December 31, 2011.¹² In this respect, assuming that a surge is occurring in Iraq in 2012, for example, is blatantly dishonest because the current state of affairs provides that there will be no U.S. troops in Iraq in 2012.

This budget employs a deception by projecting a benchmark level of future spending for operations in Iraq and Afghanistan that was never going to be followed, and then claims savings

⁸ Peter Orzag, Prepared Statement of the OMB Director to the House Budget Committee hearing on the President's Fiscal 2010 Budget Proposal, March 3, 2009, *available at* http://budget.house.gov/hearings/2009/03.03.2009_Orzag_Testimony.pdf.

⁹ Budget Request at p. 121 (Table S-5), Bridge from Budget Enforcement Act Baseline to Baseline Projection of Current Policy: Insert full-year overseas contingency operations funding (as enacted for 2008).

¹⁰ Budget Request at p. 121 (Table S-5), Bridge from Budget Enforcement Act Baseline to Baseline Projection of Current Policy: Remove part-year overseas contingency operations funding (as enacted for 2009).

¹¹ At a recent hearing of the House Budget Committee, when Representative Paul Ryan asked Mr. Orzag if it was correct that the budget request assumed that "we are going to be at the surge level in Iraq for 10 years," Mr. Orzag replied, "that's the traditional way in which budget projections have been done." House Budget Committee hearing on the President's Fiscal 2010 Budget Proposal, March 3, 2009.

¹² Iraq-United States Status of Forces Agreement art. 24(1) ("All the United States Forces shall withdraw from all Iraqi territory no later than December 31, 2011.").

through a reduction that was going to occur anyway. This “sleight of hand” savings strategy then becomes more untenable to the extent the president plans to spend these nonexistent savings. The spending will occur, but the available resources will never materialize.

Numbers Matter Because They Translate into Capabilities

A basic working definition of grand strategy captures how a state directs its limited resources towards the national security goals it seeks to achieve. More succinctly, it is a means-end chain. A declining defense budget would seem to portend a more limited set of goals, but most assuredly the military is not going to be asked to do any less over the near-term. This is evidenced most by the president’s plan to send 17,000 more troops to Afghanistan, which may not even be the last of the dedicated increases there. Given the budget numbers, however, the military under a Democratic Administration and Democratic Congress will once again be asked to do more with less. Again, more succinctly, the military will be asked to achieve the same (or more) ends with less means.

By almost any measure, if the United States considers itself to be on a war-time footing, it certainly is not spending like it. For example, in 1945 (WWII), the spending of the Department of Defense was 36% of GDP; in 1953 (Korea) it was 12%; at the peak of the Vietnam War in 1968 it was 8%; and at the peak of the Reagan defense spending in 1986 it was 6%.¹³ As Peter Orzag, Director of the Office of Management and Budget, recently testified, “[Defense spending] is projected to be 4.9% of GDP [in 2009] and on average over the next decade it’s 3.6% of GDP.”¹⁴ With respect to the current war against Islamist terrorists, as James Carafano of Heritage Foundation recently stated, “unlike previous wars, the US military never mobilized for this one.”¹⁵

With the declining defense budgets of the 1990s, it is quite clear that “defense was underfunded before 9/11.”¹⁶ Moreover, even as defense spending increased after the terrorist attacks of September 11, it did not go towards replacing aging weapons systems, capabilities, and platforms. As Gary Schmitt and Thomas Donnelly of the American Enterprise Institute explain, this may be surprising, as:

Most Americans assume that the growth in defense spending since September 11, 2001 has corrected the widely reported gap between military means and ends that developed during the 1990s. But, as we point out, much of this increase has gone toward fighting wars in Afghanistan and Iraq and paying for the rising personnel costs associated with America’s all-volunteer force. Far less has gone toward replenishing the military’s equipment and platforms.¹⁷

As Dr. Carafano summarizes, “During the Cold War, the Navy had 567 ships; today it has 283. The Air Force has about half as many wings. On 9/11, the Army had 10 divisions—down from

¹³ Gary J. Schmitt & Thomas Donnelly (eds), *Of Men and Material*, p. 140 (Figure 3) (2007).

¹⁴ Peter Orzag, Remarks of the OMB Director to the House Budget Committee hearing on the President’s Fiscal 2010 Budget Proposal, March 3, 2009.

¹⁵ James Carafano, “Hidden Cuts in Defense?,” *N.Y. Post* (Feb. 26, 2009).

¹⁶ *Id.*

¹⁷ Schmitt & Donnelly at p. 1.

18.”¹⁸ The ability of the Defense Department to accomplish the ends with which it will be tasked is jeopardized by the “post-Cold War buying holiday.”¹⁹

Unfortunately, this procurement holiday is likely to resume under President Obama, as what limited resources are available for defense will be directed more toward personnel-type costs than systems procurement. In submitting his budget request, President Obama stated that his “highest priorities” for defense spending were increasing the size of the Army and Marine Corps, improving medical treatment of wounded servicemembers, and reforming the acquisition process.²⁰ More aptly, as *Defense News* reported, “personnel costs are squeezing other budget items, . . . and [i]t is clear that [Secretary of Defense] Gates sees savings on weapons as one way to pay for personnel.”²¹ Part of these savings can indeed come from a reformed acquisitions process, but other savings may lamentably come from simply not buying needed weapons systems. Although it is laudable to devote one’s limited resources towards personnel support goals, it is distressing when there is no mention at all of procurement as another resource priority.

The overall defense budget number is important because the ability to purchase capabilities depends upon it, but it is also important to have a strategic way ahead to guide future procurements of crucial weapons systems. This is a critical component of the Quadrennial Defense Review (QDR). The QDR, by statute, is to be a comprehensive examination of, among other things, the national defense strategy, force structure, and force modernization plans.²² To this end, President Obama’s QDR, which will inform the 2011 budget process, could very well result in reduced U.S. national security goals and commitments. Until that time, however, it does not seem wise to make top-line reductions in the Defense Department’s Future Years Defense Plan (FYDP) before the benefit of the QDR analysis, and certainly not after a recently announced increase in military personnel to be deployed to Afghanistan. As the holder of the power of the purse, the Congress can correct this travesty of cutting defense budgets in a time of war.

Conclusion

Claiming a “return to honest budgeting,” President Obama recently released his first federal budget request, claiming a 4% increase in the Defense Department base budget. While this is accurate, it is also misleading. Once supplemental requests are accounted for, the defense budget is actually in decline. Additionally, the “savings” claimed from a drawdown in operations in Iraq are disingenuous. The budget assumes a ten-year surge in Iraq and then claims savings from the drawdown from the surge, even though agreements completed prior to the submission of the budget request provide for the complete withdrawal of U.S. troops from Iraq by December 31, 2011.

President Obama rightly called for a new era of open and honest budgeting. With the current state of the economy and competing demands for ever more scarce resources, it becomes that much more critical to understand the true level of defense spending and match plans to

¹⁸ Carafano.

¹⁹ *Id.*

²⁰ Budget Request at p. 54.

²¹ Matthews, *Defense News*.

²² 10 U.S.C. § 118(a).

resources. President Obama's budget request and accompanying rhetoric fail to deliver on the promise of open and honest budgeting.